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November 7, 2008

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California Department of Food and Agriculture
1220 N Street
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Re: Post-Hearing Brief for the October 30, 2008 Class 1, 2 & 3 Hearing

Mr. Hearing Officer and Members of the Hearing Panel:

Following the October 30, 2008 hearing and questioning from the panel, we appreciate the opportunity to offer some additional thoughts.

Alliance, WUD & CDWA Proposal

Many questions were raised at the hearing with regard to the possible loss of sales and competitive disadvantages fostered by our joint petition. We would like the Department to fully understand the impetus behind our request. The petition put forth was never meant to be complicated or destructive. Our goal was simple: seek temporary assistance for California dairy families to help them weather a difficult period. Producers have been, and currently are, experiencing unprecedented production costs and milk prices are falling significantly short of those costs.

It seems often forgotten that producers have no other venue for price relief outside the hearing process. Producers understand the risks cited by the processors and certainly have no ambitions to permanently hamper California's competitive advantages. However, at the same time, producers are faced with the decision of taking those risks or sitting passive as equity erodes and producers go out of business. The answer from a producer's perspective is obvious and the workshop data presented by the Department clearly demonstrates their plight.

Given current economic conditions, producers would prefer a permanent price increase. However, in an attempt to alleviate competitive concerns associated with minimum price increases, we opted for an adjustment that is temporary in nature. Processor testimony, though mixed, indicated that a six-month increase may, in fact, cause problems. These arguments we can neither dispute nor verify. We can, however, offer the producer's perspective. And, from their perspective (illustrated by the figures below), assistance in

the form of higher regulated prices, is essential. It should be noted that both the level and the duration of our request fall short of their ideal outcome.

(per hundredweight)	CA Overbase Price ¹	CA Statewide Cost of Production ²	Margin (OB less COP)	CA Mailbox	Margin (Mailbox less COP)
Jan-08	\$17.44	\$17.31	\$0.13	\$17.97	\$0.66
Feb-08	\$16.72	\$17.31	-\$0.59	\$17.05	-\$0.26
Mar-08	\$16.01	\$17.31	-\$1.30	\$16.04	-\$1.27
Apr-08	\$15.86	\$18.04	-\$2.18	\$15.88	-\$2.16
May-08	\$16.77	\$18.04	-\$1.27	\$16.79	-\$1.25
Jun-08	\$17.42	\$18.04	-\$0.62	\$17.35	-\$0.69
Jul-08	\$17.35	\$18.04	-\$0.69	\$17.19	-\$0.85
Aug-08	\$16.31	\$18.04	-\$1.73	\$16.25	-\$1.79
Sep-08	\$16.22	\$18.04	-\$1.82		
Oct-08	\$15.46	\$18.04	-\$2.58		
Nov-08	\$14.42	\$18.04	-\$3.62		

1 Actual through September and estimates for October & November 2008

2 Actual through 2nd quarter 2008 - assume 2nd quarter costs stay static through November 2008

Milk Supply Concerns

Given the recent climate of plant capacity constraints and distressed milk, it is easy to argue against a price increase. Of course this argument is predicated on the assumption that if prices fall, milk supply will decline. A closer look at historical producer behavior indicates that lowering producer prices is not a resolute solution to milk supply concerns. Given the sizeable capital investments in their facilities, contracted inputs, and the inability to "turn off a cow," dairy farmers are often faced with few options but to follow their individual business models and predetermined production levels, despite the price they receive. We fear a misguided policy of regulated price reductions aimed at curbing milk supply will only lead to rapid consolidation, and those dairies who do "weather the storm" will be faced with a significant debt load.

We thank you for the opportunity to file a post-hearing brief and look forward to the Department's hearing determination.

Regards,



Tiffany LaMendola
Director of Economic Analysis

cc: Board of Directors, Western United Dairymen
Michael Marsh, Chief Executive Officer